

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name <i>Larana Housing Commission</i>		County
Audit Date <i>3/31/04</i>	Opinion Date <i>5/18/04</i>	Date Accountant Report Submitted to State: <i>6/1/04</i>			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

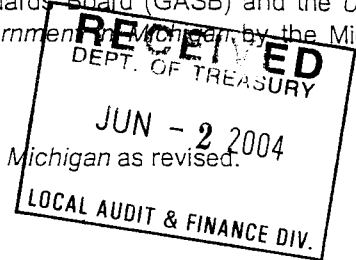
You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Sony E. Gaudet, CPA, PC</i>			
Street Address <i>1107 E. 8th Street</i>	City <i>Larana City</i>	State <i>MD</i>	ZIP <i>49686</i>
Accountant Signature <i>Sony E. Gaudet CPA</i>			



SARANAC HOUSING COMMISSION
SARANAC, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

SARANAC HOUSING COMMISSION
TABLE OF CONTENTS
March 31, 2004

	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1-2
 <u>FINANCIAL STATEMENTS</u>	
Combined Balance Sheet	3-4
Combined Statement of Revenue, Expenses and Changes in Equity	5
Combined Statement of Cash Flows	6-7
Notes to Financial Statements	8-18
 <u>SUPPLEMENTAL INFORMATION</u>	
Combining Balance Sheet	19-20
Combining Statement of Revenue, Expenses and Changes in Equity	21
Combining Statement of Cash Flows	22-23
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	24
Financial Data Schedule	25-28
 <u>REPORT ON COMPLIANCE AND ON INTERNAL CONTROL</u>	29-30

INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Saranac Housing Commission
Saranac, Michigan

We have audited the accompanying financial statements of the Saranac Housing Commission, Michigan (a component unit of the Village of Saranac) as of March 31, 2004, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saranac Housing Commission, Michigan, as of March 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2004 on our consideration of Saranac Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Saranac Housing Commission
Independent Auditor's Report
Page Two

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying combining balance sheets, statements of revenues, expenses, changes in equity and cash flows, the schedule of expenditures of Federal awards and the Financial Data Schedule are presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bany E. Audette, CPA, PC

May 18, 2004

FINANCIAL STATEMENTS

SARANAC HOUSING COMMISSION
COMBINED BALANCE SHEET
March 31, 2004
=====

ASSETS

Current Assets:	
Cash	\$ 112,841
Accounts receivable-tenants	1,006
Accounts receivable-HUD	1,938
Investments-unrestricted	260,063
Prepaid expenses	<u>2,920</u>
Total Current Assets	<u>378,768</u>
Restricted investments	<u>409,514</u>
Property, Plant, and Equipment:	
Land	699,927
Buildings	6,794,258
Equipment	505,143
Building improvements	<u>199,840</u>
	8,199,168
Less: accumulated depreciation	<u>(6,235,628)</u>
Net Property, Plant, and Equipment	<u>1,963,540</u>
Total Assets	<u><u>\$ 2,751,822</u></u>

See notes to financial statements

SARANAC HOUSING COMMISSION
COMBINED BALANCE SHEET (CONTINUED)
March 31, 2004
=====

LIABILITIES and EQUITY

Current Liabilities:	
Accounts payable	\$ 38,799
Tenant security deposit liability	41,298
Accrued expenses	5,127
Deferred revenues	8,987
Current portion of long-term debt	105,550
Accrued liabilities-other	<u>12,455</u>
Total Current Liabilities	<u>212,216</u>
Noncurrent Liabilities:	
Long-term debt, net of current	514,736
Accrued compensated absences	<u>46,141</u>
Total Noncurrent Liabilities	<u>560,877</u>
Total Liabilities	<u>773,093</u>
Equity:	
Contributed capital-HUD	1,383,002
Undesignated retained earnings	<u>595,727</u>
Total Equity	<u>1,978,729</u>
Total Liabilities and Equity	<u>\$ 2,751,822</u>

See notes to financial statements

SARANAC HOUSING COMMISSION
**COMBINED STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN EQUITY**
 Year Ended March 31, 2004
 =====

OPERATING REVENUES:

Dwelling rent	\$ 410,717
Non-dwelling rent	<u>2,555</u>
 Total operating revenues	 <u>413,272</u>

OPERATING EXPENSES:

Administration	179,279
Tenant services	2,297
Utilities	142,069
Ordinary maintenance and operation	196,750
General expenses	53,586
Interest expense	64,888
Casualty losses	27,989
Depreciation	<u>153,135</u>
 Total operating expenses	 <u>819,993</u>

Operating income(loss)	<u>(406,721)</u>
------------------------	-------------------

NONOPERATING REVENUES AND (EXPENSES):

Investment interest income	8,554
Other income	15,455
Operating grants	393,321
Gain/loss on sale of fixed assets	<u>250</u>
 Total nonoperating revenues(expenses)	 <u>417,580</u>

Net income(loss)	10,859
------------------	--------

Prior period adjustments, equity transfers and correction of errors	(9,311)
--	----------

Equity, beginning	<u>1,977,181</u>
-------------------	------------------

Equity, ending	<u>\$ 1,978,729</u>
----------------	---------------------

See notes to financial statements

SARANAC HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended March 31, 2004
=====

Cash flows from operating activities:

Operating(loss)	\$(406,721)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	153,135
Changes in assets and liabilities:	
(increase) decrease in assets:	
Accounts receivable	(212)
Prepaid expenses	(1,387)
Increase (decrease) in liabilities:	
Accounts payable-operations	(7,803)
Accrued compensated absences	38,174
Accrued PILOT	(17,906)
Tenant deposits	(1,372)
Deferred revenues	1,148
Accrued liabilities-other	(396)
Prior period adjustment	<u>13,886</u>
Net cash (used in) operating activities	<u>(229,454)</u>

**Cash flows from noncapital and related
financing activities:**

Operating grants	294,796
Gain(loss) on sale of fixed assets	(22,947)
Other revenue	<u>15,455</u>
Net cash provided by noncapital and related financing activities	<u>287,304</u>

**Cash flows from capital and related financing
activities:**

Mortgage principal payments	(102,655)
Capital grants	98,525
Payments for capital acquisitions	<u>(121,044)</u>
Net cash (used in) capital and related financing activities	<u>(125,174)</u>

SARANAC HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2004
=====

Cash flows from investing activities:

Escrow account increased	(4,730)
Certificates of deposits purchased	(116,971)
Receipts of interest and dividends	<u>8,554</u>

Net cash (used in) investing activities	<u>(113,147)</u>
---	-------------------

Net increase(decrease) in cash	(180,471)
--------------------------------	------------

Cash, beginning	<u>293,312</u>
-----------------	----------------

Cash, ending	<u><u>\$ 112,841</u></u>
--------------	--------------------------

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 112,841
Restricted cash	<u> </u>

Cash and cash equivalents per balance sheet	<u><u>\$ 112,841</u></u>
---	--------------------------

See notes to financial statements

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS

March 31, 2004

=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Saranac Housing Commission. The Saranac Housing Commission is a component unit of the Village of Saranac, a Michigan home rule village. The Housing Commission is a Public Housing Agency created by the Village of Saranac on May 3, 1971, consisting of a five member board appointed by the Village Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Saranac Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3070, the Housing Commission constructed, maintains and operates 89 units of subsidized housing in the Village of Saranac, Michigan. The Housing Commission also manages a Section 8 New Construction program of subsidies for 61 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported equity is segregated into contributed capital and retained earning components. Operating statements present increases (revenues) and decreases (expenses) in equity.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Village of Saranac has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the balance sheet.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$600 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	30	years
Equipment and furnishings	5 - 20	years
Building improvements	5 - 27.5	years

Equity

The Housing Commission classifies its equity as follows:

- a. Contributed capital represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.
- b. Unreserved retained earnings indicate that portion of equity which is available for use in future periods.

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to contributed capital rather than retained earnings.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation time is cumulative up to 120 days and 100 per cent will be paid upon termination.
- * Sick pay is earned at a rate of eight sick day per year and can accumulate up to 120 days. Unused sick pay is paid out at 50 percent upon termination.
- * Personal leave is earned at a rate of two days per year. Unused personal leave cannot be accumulated.

The amount of accumulated benefits at March 31, 2004, was \$51,268, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

As a component unit of a Michigan home rule village, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Section 8 New Construction funds.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the March 31, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 March 31, 2004
 =====

NOTE 2: CASH AND INVESTMENTS (Continued)

<u>Depository Balances by Category</u>					<u>Carrying Value</u>
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
Independent Bank	\$227,391	\$	\$	\$227,391	\$223,479
United Bank	86,978			86,978	86,978
Huntington Bank	12,462			12,462	12,462
Ionia County National Bank	10,963			10,963	10,963
Michigan State Housing Development Authority	409,514			409,514	409,514
West Branch of Independent Bank	<u>38,722</u>			<u>38,722</u>	<u>38,722</u>
Total Deposits	<u>\$786,030</u>	<u>\$</u>	<u>\$</u>	<u>\$786,030</u>	782,118
Petty cash					<u>300</u>
					<u>\$782,418</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					\$112,841
Investments					260,063
Restricted investment					<u>409,514</u>
Total					<u>\$782,418</u>

Restricted Investment - Restricted investment is comprised of an escrow balance in the New Construction Program.

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2004, the receivables were \$1,006 with \$ -0- estimated as uncollectible. Bad debt expense was \$96.

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 3: RECEIVABLES AND PAYABLES (Continued)

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at September 30 2003 were as follows:

Housing Choice Voucher Program	\$ <u>1,938</u>
Total	\$ <u>1,938</u>

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ -	Housing Choice Vouchers	\$ -
		Capital Fund Program	-
	<u>\$ -</u>		<u>\$ -</u>

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$ -</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2004 was as follows:

	<u>Balance 03/31/03</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance Transfers</u>	<u>Balance 03/31/04</u>
Capital Fund Program				
Building improvements	\$ <u>221,884</u>	\$ <u>98,525</u>	\$ <u>120,569</u>	\$ <u>199,840</u>

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>03/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/04</u>
Low Rent Program			
Land	\$ 438,935	\$	\$ 438,935
Buildings	4,147,701	138,686	4,286,387
Furniture, equip. & machinery - dwellings	278,755		278,755
Furniture, equip. & machinery - administration	<u>17,831</u>	<u></u>	<u>17,831</u>
	4,883,222	<u>\$ 138,686</u>	5,021,908
Less accumulated depreciation	<u>(3,827,122)</u>	<u>\$ (39,646)</u>	<u>(3,866,768)</u>
Total	<u>\$1,056,100</u>		<u>\$1,155,140</u>

	<u>Balance</u> <u>03/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/04</u>
New Construction Program			
Land	\$ 260,992	\$	\$ 260,992
Buildings	2,507,871		2,507,871
Furniture, equip. & machinery- dwellings	177,747	4,402	182,149
Furniture, equip. and machinery- administration	<u>26,408</u>	<u>\$</u>	<u>\$ 26,408</u>
	2,973,018	<u>\$ 4,402</u>	2,977,420
Less accumulated depreciation	<u>(2,255,371)</u>	<u>\$ (113,489)</u>	<u>(2,368,860)</u>
Total	<u>\$ 717,647</u>		<u>\$ 608,560</u>

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 5: CONTRIBUTED CAPITAL

The following is a summary of the activity in the Contributed Capital accounts:

	<u>Long-term Debt- HUD Guaranteed</u>	<u>Net HUD PHA Contributions</u>
Balance, beginning	\$ 414,376	\$ 341,333
Adjustment		(15,897)
Depreciation add back	<u> </u>	<u>(39,646)</u>
Balance, ending	<u>\$ 414,376</u>	<u>\$ 285,790</u>

NOTE 6: POST EMPLOYMENT BENEFITS

The Saranac Housing Commission, effective October 1, 1985, set up a money purchase plan for the benefit of its employees. This is a defined contribution plan administered by the KDP Retirement Plan Services, Inc.. Employees become eligible for participation in the plan after one year of service and must be at least 21 years of age. Employee contributions are voluntary, but the Housing Commission may contribute up to 8.5%, currently at 6%, of the annual gross wage of each employee eligible under plan regulations. The Housing Commission contributed \$10,007.50 during the fiscal year ended March 31, 2004. An employee becomes 100% vested in these employer contributions after two years participation in the plan. No vesting is earned prior to this time.

Employees may contribute up to 6% of their earnings to the Plan. Employees are 100% vested in these contributions immediately.

Early retirement is allowed at age 55. Normal retirement age is 65. Additional information is available from the Plan administrator.

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

=====

NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

NOTE 9: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains three Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended March 31, 2004, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>New Construction Program</u>
Operating revenue	\$ 231,661	\$	\$ 181,611
Depreciation	39,646		113,489
Operating(loss)	(169,031)		(237,690)
Operating grants	59,188	98,525	235,608
Net income(loss)	(93,433)	98,525	5,767
Operating transfers	-	-	-
Plant, property, and equipment:			
Additions	138,686	98,525	4,402
Deletions	-	(120,569)	-
Working capital	237,816	-	(71,264)
Total assets	1,451,274	201,778	1,098,770
Total equity	1,346,815	199,840	432,074

SARANAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

=====

NOTE 10: PRIOR PERIOD ADJUSTMENTS, EQUITY TRANSFERS AND CORRECTION OF ERRORS

Low Rent Program

Correct prior years accumulated depreciation	\$(23,197)
Equity transfer CFP 2001	<u>120,569</u>
	<u>\$ 97,372</u>

Capital Fund Program

Transfer of 2001 CFP to low rent program	<u>\$(120,569)</u>
--	--------------------

New Construction Program

Adjustment of prior year accruals	<u>\$ 13,886</u>
-----------------------------------	------------------

NOTE 11: LONG-TERM DEBT

The Saranac Housing Commission on January 26, 1979 made an agreement with the Michigan State Housing Development Authority to borrow money for a mortgage in the Section 8 New Construction Program. The balance due as of March 31, 2004 is \$620,286. The monthly payments are \$15,086 (includes principal, interest and escrow amounts) at an interest rate of 7.0%. The maturity date is January 26, 2009.

The debt payments (principal) for the fiscal years ended March 31, 2005 (\$105,500); 2006 (\$110,000); 2007 (\$125,000); 2008 (\$134,000); and 2009 (\$145,786).

Balance at April 1, 2003	\$ 722,941
Principal payments	<u>(102,655)</u>
Balance at March 31, 2004	<u>\$ 620,286</u>
Current portion	\$ 105,500
Noncurrent portion	<u>514,736</u>
Total debt	<u>\$ 620,286</u>

SUPPLEMENTARY INFORMATION

SARANAC HOUSING COMMISSION
COMBINING BALANCE SHEET
 March 31, 2004
 =====

C-3070	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 96,239	\$
Accounts receivable-tenant	684	
Accounts receivable-HUD		1,938
Investments-unrestricted	196,291	
Prepaid expenses	<u>2,920</u>	

Total current assets	<u>296,134</u>	<u>1,938</u>
----------------------	----------------	--------------

Restricted investments

Property, plant, and equipment:

Land	438,935	
Buildings	4,286,387	
Equipment	296,586	
Building improvements		<u>199,840</u>
	<u>5,021,908</u>	<u>199,840</u>
Less accumulated depreciation	<u>(3,866,768)</u>	

Net property, plant and equipment	<u>1,155,140</u>	<u>199,840</u>
-----------------------------------	------------------	----------------

Total Assets	<u>\$1,451,274</u>	<u>\$ 201,778</u>
--------------	--------------------	-------------------

Section 8
New
Construction
Program
14.182

Totals

\$ 16,602	\$ 112,841
322	1,006
	1,938
63,772	260,063
	<u>2,920</u>
<u>80,696</u>	<u>378,768</u>
<u>409,514</u>	<u>409,514</u>
260,992	699,927
2,507,871	6,794,258
208,557	505,143
	<u>199,840</u>
<u>2,977,420</u>	<u>8,199,168</u>
<u>(2,368,860)</u>	<u>(6,235,628)</u>
<u>608,560</u>	<u>1,963,540</u>
<u>\$ 1,098,770</u>	<u>\$ 2,751,822</u>

SARANAC HOUSING COMMISSION
COMBINING BALANCE SHEET (CONTINUED)
 March 31, 2004
 =====

	C-3070 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and EQUITY		
Current liabilities:		
Accounts payable	\$ 22,742	\$ 1,938
Tenant security deposit liability	24,321	
Accrued expenses	5,127	
Deferred revenues	6,128	
Current portion of long-term debt		
Accrued liabilities-other		
Total current liabilities	<u>58,318</u>	<u>1,938</u>
Noncurrent liabilities:		
Long-term debt, net of current		
Accrued compensated absences	<u>46,141</u>	
Total noncurrent liabilities	<u>46,141</u>	
Total liabilities	<u>104,459</u>	<u>1,938</u>
Equity:		
Contributed capital - HUD	700,166	
Undesignated retained earnings (deficit)	<u>646,649</u>	<u>199,840</u>
Total equity	<u>1,346,815</u>	<u>199,840</u>
Total Liabilities and Equity	<u><u>\$1,451,274</u></u>	<u><u>\$ 201,778</u></u>

Section 8
New
Construction
Program
14.182

Totals

\$ 14,119	\$ 38,799
16,977	41,298
	5,127
2,859	8,987
105,550	105,550
<u>12,455</u>	<u>12,455</u>
<u>151,960</u>	<u>212,216</u>

514,736	514,736
<u> </u>	<u>46,141</u>

<u>514,736</u>	<u>560,877</u>
----------------	----------------

<u>666,696</u>	<u>773,093</u>
----------------	----------------

682,836	1,383,002
---------	-----------

(250,762)	<u>595,727</u>
------------	----------------

<u>432,074</u>	<u>1,978,729</u>
----------------	------------------

<u>\$1,098,770</u>	<u>\$ 2,751,822</u>
--------------------	---------------------

SARANAC HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN EQUITY**
 Year Ended March 31, 2004
 =====

	C-3070 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 230,631	\$
Nondwelling rent	<u>1,030</u>	<u> </u>
Total operating revenues	<u>231,661</u>	<u> </u>
OPERATING EXPENSES:		
Administration	118,977	
Tenant services	1,899	
Utilities	84,407	
Ordinary maintenance and operation	97,745	
General expenses	30,029	
Interest expense		
Casualty losses	27,989	
Depreciation	<u>39,646</u>	<u> </u>
Total operating expenses	<u>400,692</u>	<u> </u>
Operating income(loss)	<u>(169,031)</u>	<u> </u>
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	3,179	
Other income	12,981	
Operating grants	59,188	98,525
Gain/loss on sale of fixed assets	<u>250</u>	<u> </u>
Total nonoperating revenues (expenses)	<u>75,598</u>	<u>98,525</u>
Net income(loss)	<u>(93,433)</u>	<u>98,525</u>
Prior period adjustments, equity transfers and correction of errors	97,372	(120,569)
Equity, beginning	<u>1,342,876</u>	<u>221,884</u>
Equity, ending	<u>\$1,346,815</u>	<u>\$199,840</u>

Section 8
New
Construction
Program
14.182

Totals

\$ 180,086	\$ 410,717
<u>1,525</u>	<u>2,555</u>
<u>181,611</u>	<u>413,272</u>

60,302	179,279
398	2,297
57,662	142,069
99,005	196,750
23,557	53,586
64,888	64,888
	27,989
<u>113,489</u>	<u>153,135</u>

<u>419,301</u>	<u>819,993</u>
(<u>237,690</u>)	(<u>406,721</u>)

5,375	8,554
2,474	15,455
235,608	393,321
	<u>250</u>

<u>243,457</u>	<u>417,580</u>
----------------	----------------

5,767	10,859
-------	--------

13,886	(9,311)
<u>412,421</u>	<u>1,977,181</u>

<u>\$ 432,074</u>	<u>\$ 1,978,729</u>
-------------------	---------------------

SARANAC HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended March 31, 2004
=====

	C-3070 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Operating(loss)	\$(169,031)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	39,646	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(500)	
Prepaid expenses	(1,387)	
Increase (decrease) in liabilities:		
Accounts payable-operations	9,113	
Accrued compensated absences	38,174	
Accrued PILOT	(3,805)	
Tenant deposits	133	
Deferred revenues	2,589	
Accrued liabilities-other	(396)	
Prior period adjustment		
	<u> </u>	<u> </u>
Net cash (used in) operating activities	<u>(85,464)</u>	<u> </u>
Cash flows from noncapital and related financing activities:		
Operating grants	59,188	
Gain(loss) on sale of fixed assets	(22,947)	
Other revenue	<u>12,981</u>	<u> </u>
Net cash provided by noncapital and related financing activities	<u>49,222</u>	<u> </u>
Cash flows from capital and related financing activities:		
Mortgage principal payments		
Capital grants		98,525
Payments for capital acquisitions	<u>(18,117)</u>	<u>(98,525)</u>
Net cash (used in) capital and related financing activities	<u>(18,117)</u>	<u> </u>

Section 8
New
Construction
Program
14.182

Totals

\$ (237,690) \$ (406,721)

113,489 153,135

288 (212)
(1,387)

(16,916) (7,803)
38,174

(14,101) (17,906)

(1,505) (1,372)

(1,441) 1,148

(396)

13,886 13,886

(143,990) (229,454)

235,608 294,796

(22,947)

2,474 15,455

238,082 287,304

(102,655) (102,655)

98,525

(4,402) (121,044)

(107,057) (125,174)

SARANAC HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2004
=====

	C-3070 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from investing activities:		
Escrow account increased		
Certificates of deposits purchased	(101,166)	
Receipts of interest and dividends	<u>3,179</u>	
Net cash (used in) investing activities	<u>(97,987)</u>	
Net increase(decrease) in cash	(152,346)	
Cash, beginning	<u>248,585</u>	
Cash, ending	<u>\$ 96,239</u>	<u>\$</u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 96,239	\$
Restricted cash	<u></u>	<u></u>
Cash and cash equivalents per balance sheet	<u>\$ 96,239</u>	<u>\$</u>

Section 8
New
Construction
Program
14.182

Totals

(4,730)
(15,805)
5,375

(4,730)
(116,971)
8,554

(15,160)

(113,147)

(28,125)

(180,471)

44,727

293,312

\$ 16,602

\$ 112,841

\$ 16,602

\$ 112,841

\$ 16,602

\$ 112,841

SARANAC HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 59,188
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	98,525
	<u>Low Income Public Housing Nonmajor - Direct Program</u>		
2004	Section 8 New Construction Program	14.182	<u>235,608</u>
	Total		<u>\$ 393,321</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

SARANAC HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2004

=====

FDS Line Item No.		C-3070 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ <u>96,239</u>	\$ <u> </u>
100	Total cash	<u>96,239</u>	<u> </u>
	Receivables:		
122	A/R-HUD other projects		1,938
126	A/R-tenants-dwelling rents	<u>684</u>	<u> </u>
120	Total receivables, net of allowance for doubtful accounts	<u>684</u>	<u>1,938</u>
	Current Investments:		
131	Investments-unrestricted	196,291	
132	Investments-restricted	<u> </u>	<u> </u>
	Total investments	<u>196,291</u>	<u> </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>2,920</u>	<u> </u>
	Total other current assets	<u>2,920</u>	<u> </u>
150	Total current assets	<u>296,134</u>	<u>1,938</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	438,935	
162	Buildings	4,286,387	
163	Furn, equip & mach-dwellings	278,755	
164	Furn, equip & mach-admin.	17,831	
165	Building improvements		199,840
166	Accumulated depreciation	<u>(3,866,768)</u>	<u> </u>
160	Total fixed assets, net of accumulated depreciation	<u>1,155,140</u>	<u>199,840</u>
180	Total noncurrent assets	<u>1,155,140</u>	<u>199,840</u>
190	Total Assets	<u>\$ 1,451,274</u>	<u>\$201,778</u>

Section 8
New
Construction
Program

<u>14.182</u>	<u>Totals</u>
<u>\$ 16,602</u>	<u>\$ 112,841</u>
<u>16,602</u>	<u>112,841</u>
<u>322</u>	<u>1,938</u>
	<u>1,006</u>
<u>322</u>	<u>2,944</u>
<u>63,772</u>	<u>260,063</u>
<u>409,514</u>	<u>409,514</u>
<u>473,286</u>	<u>669,577</u>
<u></u>	<u>2,920</u>
<u></u>	<u>2,920</u>
<u>490,210</u>	<u>788,282</u>
<u>260,992</u>	<u>699,927</u>
<u>2,507,871</u>	<u>6,794,258</u>
<u>182,149</u>	<u>460,904</u>
<u>26,408</u>	<u>44,239</u>
	<u>199,840</u>
<u>(2,368,860)</u>	<u>(6,235,628)</u>
<u>608,560</u>	<u>1,963,540</u>
<u>608,560</u>	<u>1,963,540</u>
<u>\$ 1,098,770</u>	<u>\$ 2,751,822</u>

SARANAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2004
=====

FDS Line Item No.		C-3070 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 9,630	\$ 1,938
322	Accrued compensated absences	5,127	
333	Accounts payable-other government	13,112	
341	Tenant security deposits	24,321	
342	Deferred revenues	6,128	
343	Current portion of long-term debt		
346	Accrued liabilities-other	<u> </u>	<u> </u>
310	Total current liabilities	<u>58,318</u>	<u>1,938</u>
	Noncurrent Liabilities:		
351	Long-term debt, net of current		
354	Accrued compensated absences	<u>46,141</u>	<u> </u>
350	Total noncurrent liabilities	<u>46,141</u>	<u> </u>
300	Total liabilities	<u>104,459</u>	<u>1,938</u>
	Equity:		
	Contributed Capital:		
503	Long-term debt-HUD guaranteed	414,376	
504	Net HUD PHA contributions	<u>285,790</u>	<u> </u>
508	Total contributed capital	700,166	
512	Undesignated retained earnings	<u>646,649</u>	<u>199,840</u>
513	Total Equity/Net Assets	<u>1,346,815</u>	<u>199,840</u>
600	Total Liabilities and Equity	<u>\$ 1,451,274</u>	<u>\$201,778</u>

Section 8
New
Construction
Program
14.182

Totals

\$ 3,834	\$ 15,402
	5,127
10,285	23,397
16,977	41,298
2,859	8,987
105,550	105,550
<u>12,455</u>	<u>12,455</u>
<u>151,960</u>	<u>212,216</u>
514,736	514,736
<u> </u>	<u>46,141</u>
<u>514,736</u>	<u>560,877</u>
<u>666,696</u>	<u>773,093</u>
	414,376
<u>682,836</u>	<u>968,626</u>
682,836	1,383,002
<u>(250,762)</u>	<u>595,727</u>
<u>432,074</u>	<u>1,978,729</u>
<u>\$ 1,098,770</u>	<u>\$ 2,751,822</u>

SARANAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2004

FDS Line Item No.		C-3070 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 230,631	\$
704	Tenant revenue-other	<u>1,030</u>	<u> </u>
705	Total tenant revenue	231,661	
706	HUD PHA grants	59,188	
706.1	Capital grants		98,525
711	Investment income-unrestricted	3,179	
715	Other revenue	12,981	
716	Gain/loss on sale of fixed assets	<u>250</u>	<u> </u>
700	Total revenue	<u>307,259</u>	<u>98,525</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	47,016	
912	Auditing fees	1,500	
914	Compensated absences	38,174	
915	Employee benefit contributions-adm.	19,250	
916	Other operating-administrative	13,037	
	Tenant Services:		
924	Tenant services-other	1,899	
	Utilities:		
931	Water	20,472	
932	Electricity	35,998	
933	Gas	27,937	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	39,273	
942	Ordinary maint & oper-mat'ls & other	17,882	
943	Ordinary maint & oper-contract costs	24,617	
945	Employee benefit contributions- ordinary maintenance	15,973	
	General expenses:		
961	Insurance premiums	16,881	
963	Payments in lieu of taxes	13,148	
964	Bad debt-tenant rents		
967	Interest expense	<u> </u>	<u> </u>
969	Total operating expenses	<u>333,057</u>	<u> </u>
970	Excess operating revenue over operating expenses	<u>(25,798)</u>	<u>98,525</u>

Section 8
New
Construction
Program
14.182

Totals

\$ 180,086	\$ 410,717
<u>1,525</u>	<u>2,555</u>
181,611	413,272
235,608	294,796
	98,525
5,375	8,554
2,474	15,455
	<u>250</u>
<u>425,068</u>	<u>830,852</u>

47,017	94,033
800	2,300
(20,750)	17,424
20,100	39,350
13,135	26,172

398	2,297
-----	-------

13,430	33,902
33,515	69,513
10,717	38,654

39,273	78,546
10,797	28,679
32,255	56,872

16,680	32,653
--------	--------

11,252	28,133
12,209	25,357
96	96

<u>64,888</u>	<u>64,888</u>
---------------	---------------

<u>305,812</u>	<u>638,869</u>
----------------	----------------

<u>119,256</u>	<u>191,983</u>
----------------	----------------

SARANAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2004

FDS Line Item No.		C-3070 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
972	Casualty losses	27,989	
974	Depreciation expense	<u>39,646</u>	
	Total other expenses	<u>67,635</u>	
900	Total expenses	<u>400,692</u>	
1000	Excess (deficiency) of operating revenue over (under) expenses	(93,433)	98,525
1103	Beginning Equity	1,342,876	221,884
1104	Prior period adjustments, equity transfers and correction of errors	<u>97,372</u>	<u>(120,569)</u>
	Ending Equity	<u>\$ 1,346,815</u>	<u>\$199,840</u>

Section 8
New
Construction
Program
14.182

Totals

	27,989
<u>113,489</u>	<u>153,135</u>
<u>113,489</u>	<u>181,124</u>
<u>419,301</u>	<u>819,993</u>

5,767	10,859
412,421	1,977,181

<u>13,886</u>	<u>(9,311)</u>
<u>\$ 432,074</u>	<u>\$ 1,978,729</u>

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Saranac Housing Commission
Saranac, Michigan

We have audited the financial statements of the Saranac Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2004, and have issued our report thereon dated May 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standard
Saranac Housing Commission
Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Taudette, CPA, PC

May 18, 2004